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D. A. STUART OIL CO., LIMITED

ANNUAL REPORT

for the year ended May 31

1968

GENERAL OFFICE 2727 SOUTH TROY STREET, CHICAGO,
ILLINOIS, 60623

CANADIAN OFFICE 43 UPTON ROAD, SCARBOROUGH,
ONTARIO, CANADA



D. A. STUART OIL CO., LIMITED

Serving the metal working industry for over 100 years



DIRECTORS and OFFICERS

Directors

JOHN D. BRYCE
M. CLIFFORD DEANS
DANIEL GIANNINI
RAYMOND M. LARSON
GORDON McMILLAN
HERBERT W. SALTHOUSE
JAMES P. TOMLINSON

Officers of the Company

Chairman of the Board
JOHN D. BRYCE

President & General Manager
JAMES P. TOMLINSON

Vice-President & General Sales Manager
RAYMOND M. LARSON

Treasurer
HARRY O. BUNN

Secretary
HERBERT W. SALTHOUSE

Transfer Agents and Registrars

NATIONAL TRUST COMPANY LIMITED
21 KING STREET EAST
TORONTO 1, ONTARIO

D. A. STUART OIL CO., LIMITED
2727 S. TROY STREET
CHICAGO, ILLINOIS 60623

REPORT OF THE DIRECTORS

TO THE SHAREHOLDERS

Your Directors submit herewith, the Annual Report of your Company, including the financial statements for the year ended May 31, 1968 and the Auditors' report dated August 16, 1968.

The consolidated operating profits for the fiscal year, before taxes were \$840,232. as compared to \$1,083,039. for the previous year. After providing \$457,888. for taxes on income, the net profit for the year ended May 31, 1968 amounted to \$382,344. as compared to \$571,821. for the previous year. This is equivalent to 84¢ U.S. per share as compared to \$1.25 U.S. for the previous year. Taxes paid included the new 10% tax surcharge in the U.S.A. and the new 3% surtax increase in Canada. The reduction in profits for the year are attributable to three factors:

Firstly, increased costs of labour, materials and selling and technical research without off-setting price increases. This has been rectified, and in future will be constantly kept under review.

Secondly, a loss on devaluation of the British pound sterling took place in the amount of \$21,418.

Thirdly, starting up costs of the Argentine company resulted in a loss of \$54,000.

Your management considers these costs to be non-recurring.

SALES

The consolidated sales were \$11,331,133.

The Los Angeles Oil and Grease Company, California, represented D. A. Stuart Oil Co., Limited for many years as a distributor. At the commencement of the fiscal year this company was purchased by D. A. Stuart Oil Co., Limited, and has since become the Western Division of your Company. New equipment has been installed to increase local production capacity. The sales of this new division are increasing at a good rate.

A new European subsidiary, Bryce Chemicals S.P.A. was formed in Italy and extensive plant facilities leased at Limbiate, a suburb of Milan. Equipment for plant and laboratories is on order and will be installed as received. Full scale production is expected for October 1969.

In this fiscal year twelve additional sales representatives have been employed in the U.S.A., benefit of these people will not be realized until some time in the present year.



PRODUCT DEVELOPMENT

New Stuart products have been added, and established materials improved. At present your company offers Stuart products and Stuart technical assistance for a wide range of metalworking operations.

Broadly these include Stuart products for the following:

The rolling of steel, aluminum and brass sheet and strip.

A wide range of drawing compounds for cold drawing, stamping and shearing of metal.

Forging compounds to lubricate the hot forging of metal components.

Cutting and grinding oils of a wide variety.

Soluble oils of a conventional nature and chemical and synthetic products as well.

Gear lubricants of an active and inactive nature. Sulphur-phosphorous, and sulphur chlorine-lead additives to be used in the manufacture of these gear lubricants.

Friction modifiers, anti-rust compounds, alkaline cleaners and phosphate coatings.

Many Stuart products are designed to meet a specific customer requirement.

Stuart technical service at the point of product use is immediately given as the need arises.

In this fiscal year, ten additional graduate chemists joined the Stuart organization. Five in the U.S.A., two in South America and three in Europe.

DIVIDENDS

During the year, four quarterly dividends were paid totalling 67½¢ per share (Canadian dollars), which on the basis of the stock split amounted to \$285,272. compared with \$221,904. for the previous year.

EMPLOYEES

One of the prime assets of your Company continues to be the loyalty and enthusiasm of our employees. Their efforts are recognized and sincerely appreciated by the management and directors.

On behalf of the Board of Directors

JOHN D. BRYCE
Chairman of the Board

JAMES P. TOMLINSON
President and General Manager

August 23, 1968
Toronto, Canada



D. A. STUART OIL CO., LIMITED AND

(Incorporated under the laws of Ontario)

CONSOLIDATED BALANCE SHEET

(with comparative figures for 1967)

	1968	1967
ASSETS		
Current assets		
Cash	\$ 529,850	\$ 357,744
United States Treasury Notes		197,250
Accounts receivable	1,407,961	1,359,014
Inventories, at the lower of cost and market	1,069,849	930,576
Drums, other containers and supplies	141,441	135,919
Advances and prepaid expenses	91,010	73,851
	<u>3,240,111</u>	<u>3,054,354</u>
Marketable securities , at cost (market value 1968, \$23,541; 1967, \$19,019 Canadian dollars)	<u>34,308</u>	<u>34,308</u>
Other investments		
Advances for organization of European subsidiary	31,395	
Shares in other companies, at cost (market value not determinable)	29,271	29,271
Canadian special refundable tax	24,738	25,891
Life insurance, cash surrender value	2,272	1,341
	<u>87,676</u>	<u>56,503</u>
Fixed assets , at depreciated values as appraised by The American Appraisal Company as at June 1, 1952 with subsequent additions at cost (note 2)		
Land, buildings and equipment	2,518,241	2,361,107
Less accumulated depreciation since date of appraisal	1,121,336	1,004,992
	<u>1,396,905</u>	<u>1,356,115</u>
Formulae, trademarks and goodwill , at cost		80,771
	<u>\$4,759,000</u>	<u>\$4,582,051</u>

Approved by the Board:

JOHN D. BRYCE, Director.

J. P. TOMLINSON, Director.

THE WHOLLY OWNED SUBSIDIARIES

SHEET — MAY 31, 1968

(May 31, 1967)

LIABILITIES

Current liabilities

	1968	1967
Accounts payable and accrued liabilities	\$ 907,482	\$ 704,743
Income taxes payable	23,818	83,648
Other taxes payable	63,941	39,469
Dividend payable	63,460	31,639
Liability for returnable containers	57,992	58,963
Principal instalments due within one year on long-term debt	32,963	80,000
	<u>1,149,656</u>	<u>998,462</u>

Long-term debt

5% Bank term loan, payable \$20,000 quarterly	20,000	100,000
6½% Note payable \$3,241 principal plus interest quarterly, balance due July 1, 1972	56,028	
	<u>76,028</u>	<u>100,000</u>
Less principal instalments included in current liabilities	32,963	80,000
	<u>43,065</u>	<u>20,000</u>

Deferred income taxes

	<u>6,425</u>	<u>8,776</u>
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SHAREHOLDERS' EQUITY

Capital stock (note 3)

Authorized — 800,000 (200,000 in 1967) common shares of no par value		
Issued — 456,256 (114,064 in 1967) shares	424,608	424,608

Retained earnings (note 4)

	<u>3,135,246</u>	<u>3,130,205</u>
	<u>3,559,854</u>	<u>3,554,813</u>
	<u>\$4,759,000</u>	<u>\$4,582,051</u>



CONSOLIDATED STATEMENT OF INCOME

Year ended May 31, 1968

(with comparative figures for 1967)

	1968	1967
Sales	\$11,331,133	\$10,636,223
Cost of sales	8,242,916	7,682,532
Gross margin	3,088,217	2,953,691
Selling and administrative expenses	2,222,672	1,874,402
Interest on long-term debt	6,460	6,410
Loss on devaluation of £ sterling — current advances	21,418	
	2,250,550	1,880,812
	837,667	1,072,879
Income from investments	2,565	10,160
Income before income taxes	840,232	1,083,039
Income taxes		
Current	460,239	502,442
Deferred (note 6)	(2,351)	8,776
	457,888	511,218
Net income for the year (note 5)	\$ 382,344	\$ 571,821
Net income per share (new share basis)	\$.84	\$ 1.25

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended May 31, 1968

(with comparative figures for 1967)

	1968	1967
Retained earnings at beginning of year	\$ 3,130,205	\$ 2,780,288
Net income for the year	382,344	571,821
	3,512,549	3,352,109
Formulae, trademarks and goodwill written off	80,771	
Loss on devaluation of £ sterling — non-current advances	11,260	
Dividends (67½¢ per share in 1968, 52½¢ per share in 1967 (new share basis); Canadian dollars)	285,272	221,904
	377,303	221,904
Retained earnings at end of year	\$ 3,135,246	\$ 3,130,205

S WHOLLY OWNED SUBSIDIARIES

CONSOLIDATED STATEMENT OF SOURCE AND USE OF FUNDS

Year ended May 31, 1968

(with comparative figures for 1967)

	1968	1967
Source of funds		
Operations		
Net income for the year	\$ 382,344	\$ 571,821
Items not involving a current outlay of funds		
Depreciation	121,124	109,798
Deferred income taxes	(2,351)	8,776
	501,117	690,395
Note payable	87,354	
Canadian special refundable tax	1,153	
	589,624	690,395
Use of funds		
Dividends	285,272	221,904
Additions to fixed assets (net)	161,914	269,065
Decrease in non-current portion of long-term debt	64,289	100,000
Canadian special refundable tax		23,383
Advances for organization of European subsidiary	31,395	
Loss on devaluation of £ sterling — non-current advances	11,260	
Life insurance, cash surrender value	931	1,341
	555,061	615,693
Increase in working capital	34,563	74,702
Working capital at beginning of year	2,055,892	1,981,190
Working capital at end of year	\$2,090,455	\$2,055,892

TEN YEAR COMPARATIVE REVIEW OF OPERATIONS

	Sales	Net income before taxes	Income taxes	Net income for the year	Dividends declared	Income retained
1968	\$11,331,133	\$ 840,232	\$ 457,888	\$ 382,344	\$ 285,272	\$ 97,072
1967	10,636,223	1,083,039	511,218	571,821	221,904	349,917
1966	10,459,046	1,179,698	561,679	618,019	211,760	406,259
1965	9,376,649	1,016,465	499,246	517,219	185,280	331,939
1964	7,988,488	912,193	445,319	466,874	171,096	295,778
1963	7,021,539	745,969	365,798	380,171	142,580	237,591
1962	6,612,077	568,391	277,853	290,538	142,580	147,958
1961	5,535,205	491,367	242,668	248,699	170,952	77,747
1960	6,220,555	674,232	340,760	333,472	142,309	191,163
1959	5,273,087	506,145	254,420	251,725	113,173	138,552

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****Year ended May 31, 1968****1. BASIS OF CONSOLIDATION**

The company operates in the United States and the accompanying financial statements are expressed in U.S. currency. The accounts of the company's subsidiaries, Canadian D. A. Stuart Oil Co. Limited, D. A. Stuart Oil Co. (G.B.) Limited and D. A. Stuart Oil Company (Argentina) S.A.I.C. have been translated on the following basis:

Current assets and liabilities, at exchange rates prevailing at May 31, 1968;

Fixed assets, capital stock and earnings accumulated prior to June 1, 1964 on the basis of U.S. \$1 = Canadian \$1 and U.S. \$2.80 = £1;

Income and expenses and additions to fixed assets at average rates in effect annually during the years since June 1, 1964.

2. FIXED ASSETS

	1968			1967
	Asset value	Accumulated depreciation	Net	Net
Land	\$ 186,209		\$ 186,209	\$ 186,209
Buildings and railway siding	953,459	\$ 275,313	678,146	685,035
Factory equipment	1,053,347	641,919	411,428	384,213
Office and laboratory equipment	220,751	140,533	80,218	65,294
Aircraft	9,984	8,825	1,159	1,823
Automotive equipment	94,491	54,746	39,745	33,541
	<u>\$2,518,241</u>	<u>\$1,121,336</u>	<u>\$1,396,905</u>	<u>\$1,356,115</u>

3. CAPITAL STOCK

By supplementary letters patent, dated October 26, 1967, the company's authorized and issued share capital was subdivided on a basis of four shares for each existing share.

4. RETAINED EARNINGS

Until the bank term loan has been repaid, the lender's permission is required to declare annual dividends in excess of one-half of the combined net earnings after related income taxes.

Dividends from the subsidiary in the United Kingdom are subject to exchange control authorization, which is usually granted, and withholding taxes at time of payment.

5. NET INCOME

Net income for the year includes a loss of \$54,789 incurred by the Argentina subsidiary against which a deferred tax credit has been provided (note 6). This subsidiary commenced operations in the 1968 fiscal year and in the opinion of management the loss incurred was mainly due to initial start-up costs and is of a non-recurring nature.

S WHOLLY OWNED SUBSIDIARIES

6. INCOME TAXES

The deferred income tax credit reducing the current year's provision for income tax comprises the following:

Income tax benefits to be realized in future years by applying the 1968 loss carry-forward to reduce future taxable income of the Argentina subsidiary	\$ 19,351
Income tax deferred by companies claiming capital cost allowances in excess of depreciation provided in the accounts	17,000
	<u>\$ 2,351</u>

7. OTHER STATUTORY INFORMATION

The following are reflected in net income for the year:

	1968	1967
Depreciation	<u>\$ 121,124</u>	<u>\$ 109,798</u>
Remuneration of directors and senior officers (as defined by The Corporations Act)		
Directors and officers	\$ 168,295	\$ 174,355
Other employees	104,968	104,435
	<u>\$ 273,263</u>	<u>\$ 278,790</u>

8. COMPARATIVE FINANCIAL STATEMENTS

The 1967 figures have been reclassified to conform with the basis of presentation used for the 1968 financial statements (\$8,776 income taxes payable have been reclassified as deferred income taxes).

AUDITORS' REPORT

To the Shareholders of
D. A. Stuart Oil Co., Limited

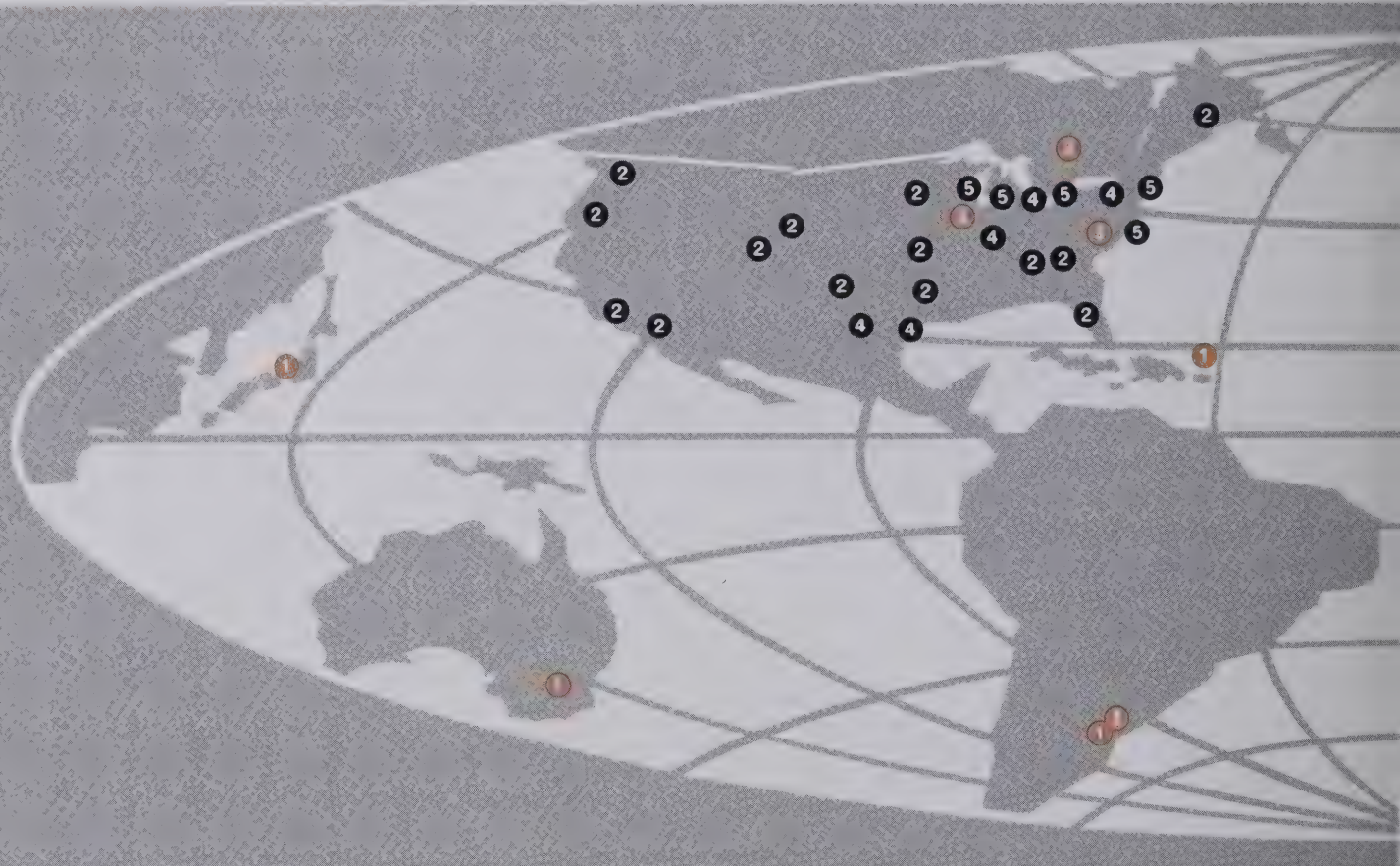
We have examined the consolidated balance sheet of D. A. Stuart Oil Co., Limited and its wholly owned subsidiaries as at May 31, 1968 and the consolidated statements of income, retained earnings and source and use of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at May 31, 1968 and the results of their operations and the source and use of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Toronto, Canada
August 16, 1968

THORNE, GUNN, HELLIWELL & CHRISTENSON
Chartered Accountants

INTERNATIONAL FACILITIES: UNITED STATES • CANADA •



1

INTERNATIONAL

ARGENTINA, Buenos Aires
D. A. Stuart Oil Co., S.R.L.
AUSTRALIA, New South Wales
Ampol Petroleum Ltd.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co. (G.B.) Ltd
JAPAN, Tokyo
Takata & Co. Ltd.
PUERTO RICO, Hato Rey
General Gases & Supplies
SOUTH AFRICA, Johannesburg
Jet Oil Company (Pty) Ltd.
SCOTLAND, Stirling
C. A. Rankine

2

DISTRIBUTORS

ATLANTA, Ga.
Cowan Supply Company
BIRMINGHAM 2, Ala.
Young & Vann Supply
DENVER, Colo.
Union Supply Co.
GREENVILLE, Miss.
Walcott Chemicals, Inc.
KANSAS CITY, Mo.
Dens-Oil Lubricant Company
LOS ANGELES, California
Los Angeles Oil and Grease
MINNEAPOLIS, Minn.
The Satterlee Company
OKLAHOMA CITY, Okla.
Hart Industrial Supply
PORTLAND, Maine
Loren Dyer Co., Inc.
PORTLAND, Oregon
Davis Industrial Products
SAN MATEO, California
Bay City Oil Company
SEATTLE, Washington
Seaport Supply Company
TAMPA, Florida
Tool & Die Supply Company
TULSA, Oklahoma
Krisman Industrial Supply

3

MANUFACTURING

CHICAGO, Illinois
D. A. Stuart Oil Co., Ltd.
SOMERVILLE, New Jersey
D. A. Stuart Oil Co., Ltd.
SCARBOROUGH, Ontario, Canada
Canadian D. A. Stuart Oil Co., Ltd.
ARGENTINA, Buenos Aires
D. A. Stuart Oil Co., S.R.L.
ENGLAND, Wolverhampton
D. A. Stuart Oil Co. (G.B.) Ltd.

4

WAREHOUSES

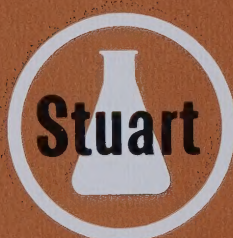
DALLAS, Texas
Blue Chip Delivery, Inc.
DAYTON, Ohio
Lewis & Michael Inc.
HOUSTON, Texas
Palmer Whse. & Trans. Co.
INDIANAPOLIS, Indiana
Merchandise Warehouse
Company
SYRACUSE, New York
Robert M. Haley Warehouse

5

BULK PLANTS

CHICAGO, Illinois
CLEVELAND, Ohio
DETROIT, Michigan
SOMERVILLE, New Jersey
SOUTH WINDSOR, Connecticut

EUROPE



6

EUROPE

- AUSTRIA, Vienna XII
J. Plaut
- BELGIUM, Vilvorde
Ets. Mottay & Pisart, S.A.
- DENMARK, Kopenhagen-Gentofte
Firma P. V. Nordentoft
- FINLAND, Helsinki
Oy Teknoma AB
- FRANCE, Paris 17e
Dasco S.A.
- W. GERMANY, Raunheim A.M.
D. A. Stuart Industrieoeele GMBH
- ITALY, Milan
Univers S.p.A.
- NORWAY, Oslo
Axo Kjemiske Fabrikk A S
- PORTUGAL, Lisboa 6
Lubrial-Sociedade Comercial de Repr Lda.
- SPAIN, Madrid 20
Stuart Oil (Espana) S.A.
- SWEDEN, Goteborg 1
A.B. Axel Christiernsson
- SWEDEN, Stockholm 37 - Vartan
A.B. Axel Christiernsson
- SWITZERLAND, Berne
Milloil GmbH
- SWITZERLAND, Berne CH 3001
Walo von Muhlenen Ltd.



